

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF LUNA PIER	County MONROE
Audit Date 6/30/05	Opinion Date 10/20/05	Date Accountant Report Submitted to State: 11/16/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, CPAS, PLLC			
Street Address ONE SOUTH MONROE STREET		City MONROE	State MI
Accountant Signature <i>Cooley Hehl Wohlgamuth & Carlton</i>		ZIP 48161	Date 10/20/05

CITY OF LUNA PIER
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2005

CITY OF LUNA PIER

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
City of Luna Pier
Luna Pier, Michigan 48157

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luna Pier, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 36 through 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and
Members of City Council
City of Luna Pier

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luna Pier, Monroe County, Michigan basic financial statements. The comparative and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Cooley Hehl Wohlgemuth & Culter

October 20, 2005

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2005

This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Fund.

The Governmental Accounting Standards Board (GASB) adopted this reporting model in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Special Road Fund, the Community Development Fund, the Debt Retirement Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Budgetary Information for Major Funds
(Required Supplemental Information)

Other Supplemental Information

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2005*

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 10-12), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture and recreation. Property taxes, state grants, and charges for services finance most of these activities.

Fund Financial Statements

The City's Fund Financial Statements (pages 13-20) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

Governmental funds - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 14 and 16.

Proprietary fund - A Proprietary Fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

Fiduciary fund - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2005

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2005 and 2004:

Table 1:

Comparative Statement of Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$1,837,875	\$1,644,715	\$171,911	\$214,430	\$2,009,786	\$1,859,145
Capital assets, net	1,056,521	930,252	1,947,092	1,953,453	3,003,613	2,883,705
Total Assets	2,894,396	2,574,967	2,119,003	2,167,883	5,013,399	4,742,850
Current and other liabilities	34,300	34,704	3,847	8,645	38,147	43,349
Long-term liabilities	232,581	351,362	0	0	232,581	351,362
Total Liabilities	266,881	386,066	3,847	8,645	270,728	394,711
Net Assets						
Invested in capital						
assets, net of related debt	889,439	678,292	1,947,092	1,953,453	2,836,531	2,631,745
Restricted for highways and streets	590,581	568,720	0	0	590,581	568,720
Restricted for debt service	4,424	5,073	0	0	4,424	5,073
Restricted for flood control	425,876	357,892	0	0	425,876	357,892
Restricted for fire protection	1,356	1,178	0	0	1,356	1,178
Unrestricted	715,839	577,746	168,064	205,785	883,903	783,531
Total Net Assets	\$2,627,515	\$2,188,901	\$2,115,156	\$2,159,238	\$4,742,671	\$4,348,139

As depicted in Table 1, the City's net assets were \$4.7 million at June 30, 2005. Of this amount, a positive \$883,903 was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities we could with our current resources. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2005*

Government-Wide Financial Analysis - Concluded

Table 2:

Comparative Statement of Changes in Net Assets June 30,

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Charges for services	\$137,462	\$129,008	\$197,674	\$187,473	\$335,136	\$316,481
Federal and state grants	280,019	182,820	0	0	280,019	182,820
	<u>417,481</u>	<u>311,828</u>	<u>197,674</u>	<u>187,473</u>	<u>615,155</u>	<u>499,301</u>
General revenues						
Property taxes	965,509	861,451	0	0	965,509	861,451
State grants	130,423	131,860	0	0	130,423	131,860
Other general revenues and transfers out	198,872	4,476	69,342	98,485	268,214	102,961
	<u>1,294,804</u>	<u>997,787</u>	<u>69,342</u>	<u>98,485</u>	<u>1,364,146</u>	<u>1,096,272</u>
Total Revenues	1,712,285	1,309,615	267,016	285,958	1,979,301	1,595,573
Functions/Program Expenses						
Legislative	4,400	4,821	0	0	4,400	4,821
General government	217,874	241,109	0	0	217,874	241,109
Public safety	347,649	305,612	0	0	347,649	305,612
Public works	294,578	319,117	0	0	294,578	319,117
Recreation and cultural	42,739	33,908	0	0	42,739	33,908
Interest on long-term debt	3,363	3,896	0	0	3,363	3,896
Other	363,068	342,968	0	0	363,068	342,968
Waste Water Treatment Plant	0	0	311,098	319,180	311,098	319,180
	<u>1,273,671</u>	<u>1,251,431</u>	<u>311,098</u>	<u>319,180</u>	<u>1,584,769</u>	<u>1,570,611</u>
Total Expenses						
	<u>1,273,671</u>	<u>1,251,431</u>	<u>311,098</u>	<u>319,180</u>	<u>1,584,769</u>	<u>1,570,611</u>
Increase (Decrease) in Net Assets	<u>\$438,614</u>	<u>\$58,184</u>	<u>(\$44,082)</u>	<u>(\$33,222)</u>	<u>\$394,532</u>	<u>\$24,962</u>

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.6 million. Of this amount, \$0.6 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced an increase in net assets of \$394,532. The increase in net assets differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net assets appears on page 16.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2005

Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$1.8 million, which is an increase of \$193,129 from last year. The changes by fund types are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$346,211	\$899,657	\$5,073	\$360,363	\$1,611,304
Increase (decrease)	<u>125,262</u>	<u>789</u>	<u>(649)</u>	<u>67,727</u>	<u>193,129</u>
Fund balances – End of year	<u><u>\$471,473</u></u>	<u><u>\$900,446</u></u>	<u><u>\$4,424</u></u>	<u><u>\$428,090</u></u>	<u><u>\$1,804,433</u></u>

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Percent Change</u>
Revenues			
Property taxes	\$ 791,665	\$ 775,874	2.0 %
Licenses and permits	42,795	38,445	11.3 %
Federal grants	84,239	78,356	7.5%
State grants	131,258	133,574	(1.7)%
Local grants	93,308	-	N/A
Charges for services	41,062	33,101	24.1 %
Fines and forfeits	6,595	5,959	10.7 %
Interest	19,518	13,248	47.3 %
Rentals	56,213	52,435	7.2 %
Other	<u>206,605</u>	<u>63,727</u>	224.2 %
Total Revenues	<u><u>\$1,473,258</u></u>	<u><u>\$1,194,719</u></u>	23.3 %

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2005*

Fund Financial Analysis – Concluded

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Percent Change</u>
Expenditures			
Legislative	\$ 4,400	\$ 4,600	(4.3)%
General government	222,483	202,970	9.6%
Public safety	431,152	305,960	40.9%
Public works	223,633	203,405	9.9%
Recreation and cultural	35,408	32,579	8.7%
Other	363,068	342,968	5.9%
Operating transfers out	67,852	97,894	(30.7)%
	<u>\$1,347,996</u>	<u>\$1,190,376</u>	13.2%

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

Revenues - Although no revisions were made to the revenue budget of \$1,070,595, several factors impact the planning of it. The City relies heavily on property taxes to fund General Fund expenditures. Property taxes of \$791,665 (up \$15,791 from the prior year) make up 53% of the General Fund revenues. Consumers Power Company pays approximately 66% of the property taxes. Federal and State revenues which totaled \$215,497, (up \$3,567 from last year) represented approximately 15% of total revenues. Also during the 2004-05 fiscal year, the City realized an increase in permit fees and also sold property and equipment for \$184,561. Projected reductions in state-shared revenues, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

Expenditures - The original budget of \$1,200,671 had no revisions during the year. There were no salary increases over the prior year. Areas experiencing increases over the prior year were attorney fees (\$14,265), clerk (\$3,237), treasurer (\$11,561), city hall and grounds (\$6,274), general government other (\$3,747), police department (\$56,242), fire department (\$93,701), building inspection (\$6,561), public works (\$18,126), water tower park (\$2,372), library (\$7,153), general insurance (\$6,765), hospitalization (\$2,719), pension (\$11,311), and workers compensation (\$6,259). Areas experiencing decreases over the prior year were assessing (\$19,309), industrial park (\$2,460), house raising (\$30,462), recreation (\$1,952), water tower park (\$2,372), unemployment (\$10,000), and transfer out of (\$30,042). As a result of the City's efforts, the General Fund's fund balance increased this year by \$125,262 as opposed to an increase in the prior year of \$4,343.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2005

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005, the City had \$5.9 million invested in a broad range of capital assets, including land, construction in progress, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant, and sewer lines. This amount represents a net increase (including additions and disposals) of \$155,065 from last year. This year's additions of \$290,114 included street construction, a phone system, a 2005 Crown Victoria police car, an exhaust system for the fire hall, multiple radios for the police and fire department, purchase of air packs for the fire department, and a diesel tractor. The City also put a new roof on the City Hall, the Library, and bath house with a total cost of \$21,240. Depreciation for this year totaled \$170,206. Detailed information regarding capital assets is included in Note 7 to the financial statements.

Debt Administration

At June 30, 2005, the City had \$186,304 in a contract liability and a loan payable. This includes a loan to purchase a fire truck. The loan for the fire truck will be repaid out of a voted property tax millage. The contract liability will be paid through water usage charges collected by the South County Water System. The City also has accrued a liability for unused vacation and personal days, which totaled \$46,277 at June 30, 2005. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

Development of the 2005-06 Fiscal Year Budget

Our elected officials considered many factors when setting the City's 2005-06 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services. For 2005-06, the City anticipates revising the health insurance program to help reduce the increase in costs, is following through on expenditure reductions started in the prior year, has reviewed permit fee and rental rate increases, and is considering a parking charge in two public parking lots. The City is continuing to sell off City owned real estate and is in the process of a study to review increases in waste water treatment plant user charges.

Contacting the City of Luna Pier

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

CITY OF LUNA PIER

Statement of Net Assets *June 30, 2005*

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$1,650,925	\$34,119	\$1,685,044
Accounts/loans receivable	88,103	132,773	220,876
Due from other governmental units	74,769	0	74,769
Prepaid expenses	24,078	5,019	29,097
Depreciable capital assets, net	1,056,521	1,947,092	3,003,613
 Total Assets	 2,894,396	 2,119,003	 5,013,399
Liabilities			
Accounts payable	18,016	3,847	21,863
Other liabilities	858	0	858
Deferred revenue	15,426	0	15,426
Long-term liabilities:			
Due within one year	91,867	0	91,867
Due in more than one year	140,714	0	140,714
 Total Liabilities	 266,881	 3,847	 270,728
Net Assets			
Invested in capital assets, net of related debt	889,439	1,947,092	2,836,531
Restricted:			
Restricted for highways and streets	590,581	0	590,581
Restricted for debt service	4,424	0	4,424
Restricted for flood control	425,876	0	425,876
Restricted for fire protection	1,356	0	1,356
Unrestricted	715,839	168,064	883,903
 Total Net Assets	 \$2,627,515	 \$2,115,156	 \$4,742,671

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Statement of Activities *Year Ended June 30, 2005*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government -				
Governmental activities:				
Legislative	\$4,400	\$0	\$0	\$0
General government	217,874	57,296	0	0
Public safety	347,649	46,754	41,739	136,643
Public works	294,578	22,858	101,637	0
Recreation and cultural	42,739	4,601	0	0
Interest on long-term debt	3,363	1,424	0	0
Other	363,068	4,529	0	0
Total Governmental Activities	1,273,671	137,462	143,376	136,643
Business-type activities:				
Waste water treatment plant	311,098	197,674	0	0
Total business type activities	311,098	197,674	0	0
Total primary government	<u>\$1,584,769</u>	<u>\$335,136</u>	<u>\$143,376</u>	<u>\$136,643</u>
General Revenues:				
Property taxes				
State grants				
Gain on sale of assets				
Interest and investment earnings				
Other				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
(\$4,400)	\$0	(\$4,400)
(160,578)	0	(160,578)
(122,513)	0	(122,513)
(170,083)	0	(170,083)
(38,138)	0	(38,138)
(1,939)	0	(1,939)
(358,539)	0	(358,539)
(856,190)	0	(856,190)
0	(113,424)	(113,424)
0	(113,424)	(113,424)
(856,190)	(113,424)	(969,614)
965,509	0	965,509
130,423	0	130,423
184,561	0	184,561
38,660	1,490	40,150
43,503	0	43,503
(67,852)	67,852	0
1,294,804	69,342	1,364,146
438,614	(44,082)	394,532
2,188,901	2,159,238	4,348,139
\$2,627,515	\$2,115,156	\$4,742,671

CITY OF LUNA PIER

*Governmental Funds
Balance Sheet
June 30, 2005*

	Special Revenue Funds				Capital Project Funds			Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund	Debt Retirement Fund	Flood Control Facilities Fund	Fire Millage Fund
Assets								
Cash and investments	\$354,476	\$398,561	\$191,171	\$58,825	\$211,608	\$4,424	\$424,511	\$7,349
Accounts/loans receivable	835	0	0	0	87,268	0	0	0
Due from other governmental units	72,039	0	0	0	0	0	1,365	1,365
Due from other funds	59,629	0	0	0	13,500	0	0	0
Prepaid expense	24,078	0	0	0	0	0	0	0
Total Assets	\$511,057	\$398,561	\$191,171	\$58,825	\$312,376	\$4,424	\$425,876	\$8,714
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$13,158	\$0	\$4,858	\$0	\$0	\$0	\$0	\$0
Due to other funds	11,000	15,089	38,029	0	2,511	0	0	6,500
Deferred revenue	15,426	0	0	0	0	0	0	0
Total Liabilities	39,584	15,089	42,887	0	2,511	0	0	6,500
Fund Balances								
Reserved for prepaid expenses	24,078	0	0	0	0	0	0	0
Reserved for noncurrent receivables	0	0	0	0	81,365	0	0	0
Reserved for debt service	0	0	0	0	0	4,424	0	0
Unreserved:								
Designated for special projects	241,505	0	0	0	0	0	0	0
Undesignated, reported in:								
General Fund	205,890	0	0	0	0	0	0	0
Special Revenue Funds	0	383,472	148,284	58,825	228,500	0	0	0
Capital Projects Funds	0	0	0	0	0	0	425,876	2,214
Total Fund Balances	471,473	383,472	148,284	58,825	309,865	4,424	425,876	2,214
Total Liabilities and Fund Balances	\$511,057	\$398,561	\$191,171	\$58,825	\$312,376	\$4,424	\$425,876	\$8,714
								\$1,911,004

CITY OF LUNA PIER

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2005*

Total Fund Balances - Governmental Funds \$1,804,433

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

Cost of the capital assets	\$2,301,914	
Accumulated depreciation	<u>(1,245,393)</u>	
		1,056,521

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(19,222)	
Loans payable	(167,082)	
Compensated absences	(46,277)	
Accrued interest	<u>(858)</u>	
		<u>(233,439)</u>

Total Net Assets - Governmental Activities \$2,627,515

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2005*

	Special Revenue Funds					Capital Projects Funds			Total Governmental Funds
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund	Debt Retirement Fund	Flood Control Facilities Fund	Fire Millage Fund	
Revenues									
Taxes	\$791,665	\$0	\$0	\$0	\$0	\$0	\$86,922	\$86,922	\$965,509
Licenses and permits	42,795	0	0	0	0	0	0	0	42,795
Federal grants	84,239	0	0	0	0	0	0	0	84,239
State grants	131,258	63,074	38,563	0	0	0	0	0	232,895
Local grants	93,308	0	0	0	0	0	0	0	93,308
Charges for services	41,062	0	0	0	0	11,036	0	0	52,098
Fines and forfeits	6,595	0	0	0	0	0	0	0	6,595
Interest income	19,518	5,595	2,667	235	4,207	51	6,314	73	38,660
Rentals	56,213	0	0	0	0	0	0	0	56,213
Other revenue	206,605	0	204	0	0	0	0	0	206,809
Total Revenues	1,473,258	68,669	41,434	235	4,207	11,087	93,236	86,995	1,779,121
Expenditures									
Current Operating:									
Legislative	4,400	0	0	0	0	0	0	0	4,400
General government	222,483	0	0	0	25,279	700	0	0	248,462
Public safety	431,152	0	0	0	0	0	0	0	431,152
Public works	223,633	28,475	59,502	500	0	0	25,252	0	337,362
Recreation and cultural	35,408	0	0	0	0	0	0	0	35,408
Other	363,068	0	0	0	0	0	0	0	363,068
Debt service	0	0	0	0	0	11,036	0	87,252	98,288
Total Expenditures	1,280,144	28,475	59,502	500	25,279	11,736	25,252	87,252	1,518,140
Excess (Deficiency) of Revenues Over Expenditures	193,114	40,194	(18,068)	(265)	(21,072)	(649)	67,984	(257)	260,981
Other Financing Sources (Uses)									
Operating transfers in	0	0	14,895	0	0	0	0	0	14,895
Operating transfers out	(67,852)	(14,895)	0	0	0	0	0	0	(82,747)
Total Other Financing Sources (Uses)	(67,852)	(14,895)	14,895	0	0	0	0	0	(67,852)
Net Change in Fund Balances	125,262	25,299	(3,173)	(265)	(21,072)	(649)	67,984	(257)	193,129
Fund Balances - Beginning of year	346,211	358,173	151,457	59,090	330,937	5,073	357,892	2,471	1,611,304
Fund Balances - End of year	\$471,473	\$383,472	\$148,284	\$58,825	\$309,865	\$4,424	\$425,876	\$2,214	\$1,804,433

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005*

Total Net Change in Fund Balances - Governmental Funds **\$193,129**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated over their
estimated useful lives as depreciation:

Depreciation expense	(\$109,245)	
Capital outlay	<u>235,514</u>	
		126,269

Accrued interest is recorded in the statement of activities when incurred;
it is not reported in the governmental funds until paid 435

Repayments of bond and loan principal is an expenditure in the governmental
funds; but not in the statement of activities (where it reduces long-term debt) 95,506

Decreases in the liability for compensated absences are reported as
expenditures in the statement of activities; but not in the
governmental funds 23,275

Change in Net Assets of Governmental Activities \$438,614

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER*Proprietary Fund
Statement of Net Assets
June 30, 2005*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Assets	
Current Assets:	
Cash	\$34,119
Receivables	132,773
Prepaid expenses	5,019
Total Current Assets	171,911
Capital Assets	3,580,438
Less: Allowance for depreciation	(1,633,346)
Total Capital Assets	1,947,092
Total Assets	2,119,003
Liabilities	
Current Liabilities:	
Accounts payable	3,847
Total Liabilities	3,847
Net Assets	
Invested in capital assets, net of related debt	1,947,092
Unrestricted	168,064
Total Net Assets	\$2,115,156

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Proprietary Fund
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Year Ended June 30, 2005

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Operating Revenues	
Charges for services	\$186,977
Permits	10,370
Penalties	327
Total Operating Revenues	197,674
Operating Expenses	
Sewer processing and maintenance	305,502
Administration	5,596
Total Operating Expenses	311,098
Net Operating Income (Loss)	(113,424)
Non-Operating Revenues (Expenses)	
Interest income	1,490
Net Income (Loss) Before Transfers	(111,934)
Transfers in	67,852
Change in Net Assets	(44,082)
Net Assets - Beginning of year	2,159,238
Net Assets - End of year	\$2,115,156

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Cash Flows from Operating Activities	
Receipts from customers	\$194,489
Payments to suppliers	(178,738)
Payments to employees	(76,589)
Net cash provided by operating activities	(60,838)
Cash Flows from Noncapital Financing Activities	
Transfers in	67,852
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(54,600)
Cash Flows from Investing Activities	
Interest income	1,490
Net Increase (Decrease) in Cash and Cash Equivalents	(46,096)
Cash and Cash Equivalents - Beginning of Year	80,215
Cash and Cash Equivalents - End of Year	\$34,119
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(\$113,424)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	60,961
Changes in operating assets and liabilities	
Receivables	(3,185)
Prepaid expenses	(392)
Accounts payable	(4,798)
Net Cash Provided by Operating Activities	(\$60,838)

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Agency Fund
Statement of Fiduciary Net Assets
June 30, 2005*

	<u>Tax Collection Agency Fund</u>
Assets	
Cash	<u>\$2,152</u>
Liabilities	
Due to other taxing units	\$1,000
Due to other governmental units	<u>1,152</u>
Total Liabilities	<u>\$2,152</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 1 Description of the City and Reporting Entity

The City operates under a locally elected five member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, Councils, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has no component units.

The following entities are not included herein as they operate as autonomous units:

Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

Note 2 Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Council (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the City's accounting policies.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. The General Fund accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Special Road Fund accounts for proceeds from a tax millage for road improvements.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Debt Retirement Fund accounts for monies used to pay general obligation bonds contractually liable by the City to the South County Water System.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City does not have any nonmajor governmental funds.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and Winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Roads	20 years
Land Improvements	20 years
Buildings and Buildings Improvements	20-60 years
Machinery and Equipment	3-30 years
Vehicles	5-8 years
Sewer Lines	100 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 2 Summary of Significant Accounting Policies (Concluded)
Basis of Presentation (Concluded)
F. Budgetary Policies (Concluded)

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

Note 3 Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Debt Retirement Fund and the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

During the year ended June 30, 2005, expenditures exceeded final budgeted amounts in the following fund:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General Fund	\$1,113,471	\$1,280,144	\$(166,673)

Note 4 Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 4

Deposits (Concluded)

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2005, the City of Luna Pier had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Council has adopted an investment policy authorizing certain types of investments and authorized two depositories: Monroe Bank and Trust and National City Bank.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy.

Concentration of credit risk. The City does not place any limits on the amount the City may deposit or invest in any one issuer.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of an outside party. The City has \$1,713,805 invested in certificates of deposit, checking accounts, and money markets. The City's deposits are insured by the FDIC in the amount of \$101,097, with uninsured deposits of \$1,612,708. The City's deposits are at institutions with an established record of fiscal health and service. The City Council approves and designates a list of authorized depository institutions. The City's investment policy does not address deposit risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2005*

Note 5 Interfund Payables and Receivables
Such balances at June 30, 2005 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund:		
Major Street Fund	\$15,089	\$ -
Local Street Fund	38,029	-
Community Development Fund	2,511	11,000
Fire Millage Fund	4,000	-
Waste Water Treatment Plant Fund		
Major Street Fund:		
General Fund	-	15,089
Local Street Fund:		
General Fund	-	38,029
Community Development Fund:		
General Fund	11,000	2,511
Fire Fund	2,500	-
Fire Millage Fund:		
General Fund	-	4,000
Community Development Fund	<u>-</u>	<u>2,500</u>
	<u>\$73,129</u>	<u>\$73,129</u>

Note 6 Interfund Transfers
Interfund transfers for the fiscal year ended June 30, 2005, consisted of the following:

	<u>Transfers Out</u>		
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Total</u>
<u>Transfers In:</u>			
Local Street Fund	\$ -	\$14,895	\$14,895
Waste Water Treatment Plant Fund	<u>67,852</u>	<u>-</u>	<u>67,852</u>
	<u>\$67,852</u>	<u>\$14,895</u>	<u>\$82,747</u>

The transfers from the Major Street Fund to the Local Street Fund was for local street construction and maintenance. The transfer from the General Fund to the Waste Water Treatment Plant Fund was to help pay for operation of the waste water plant.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 7

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities				
Assets not being depreciated:				
Land	\$11,609	\$0	\$0	\$11,609
Construction in progress	0	16,631	0	16,631
	11,609	16,631	0	28,240
Capital assets being depreciated:				
Roads	35,490	0	0	35,490
Land improvements	251,468	9,405	0	260,873
Buildings and building improvements	704,276	49,567	0	753,843
Machinery and equipment	378,461	139,759	38,362	479,858
Vehicles	820,145	20,152	96,687	743,610
	2,189,840	218,883	135,049	2,273,674
Total capital assets	2,201,449	235,514	135,049	2,301,914
Less accumulated depreciation:				
Roads	0	(1,774)	0	(1,774)
Land improvements	(164,907)	(9,523)	0	(174,430)
Buildings and building improvements	(331,488)	(14,810)	0	(346,298)
Machinery and equipment	(301,090)	(32,484)	(38,362)	(295,212)
Vehicles	(473,712)	(50,654)	(96,687)	(427,679)
Total accumulated depreciation	(1,271,197)	(109,245)	(135,049)	(1,245,393)
Net capital assets	\$930,252	\$126,269	\$0	\$1,056,521

Depreciation expense was charged to governmental functions as follows:

General government	\$ 13,502
Public safety	72,704
Public works	10,708
Recreation and cultural	12,331
Total governmental activities	<u>\$109,245</u>

CITY OF LUNA PIER

*Notes to Financial Statements
Year Ended June 30, 2005*

Note 7 Capital Assets (Concluded)

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Business-type Activities (Waste Water Treatment Plant Fund)				
Assets not being depreciated:				
Land	\$6,500	\$0	\$0	\$6,500
Capital assets being depreciated:				
Treatment plant	1,911,425	19,150	0	1,930,575
Sewer lines	1,051,207	0	0	1,051,207
Machinery and equipment	540,226	35,450	0	575,676
Vehicles	16,480	0	0	16,480
	<u>3,525,838</u>	<u>54,600</u>	<u>0</u>	<u>3,580,438</u>
Total capital assets	3,525,838	54,600	0	3,580,438
Less accumulated depreciation:				
Treatment plant	(695,653)	(46,462)	0	(742,115)
Sewer lines	(325,874)	(10,512)	0	(336,386)
Machinery and equipment	(534,378)	(3,987)	0	(538,365)
Vehicles	(16,480)	0	0	(16,480)
	<u>(1,572,385)</u>	<u>(60,961)</u>	<u>0</u>	<u>(1,633,346)</u>
Total accumulated depreciation	(1,572,385)	(60,961)	0	(1,633,346)
Net capital assets	<u>\$1,953,453</u>	<u>(\$6,361)</u>	<u>\$0</u>	<u>\$1,947,092</u>

Note 8 Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2005:

	<u>Interest</u> <u>Rate</u>	<u>Date of</u> <u>Issue</u>	<u>Original</u> <u>Maturity</u> <u>Dates</u>	<u>Amount of</u> <u>Issue</u>	<u>Balance</u> <u>Outstanding</u>
Contract liability for:					
South County Water					
System: Phase III	4.750% -				
Improvements	4.875%	07/01/95	07/01/96-07	\$154,816	\$ 19,222
Loan Payable for:					
2004 KME Pumper					
Fire Truck	3.080%	04/16/04	08/16/04-06	333,815	167,082
Other Liabilities:					
Compensated Absences Payable					<u>46,277</u>
					<u>\$232,581</u>

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 8

Long-Term Debt (Concluded)

Changes in principal during the 2004-05 fiscal period are summarized as follows:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
South County Water System: Phase III Improvements	\$ 29,850	\$ -	\$ 10,628	\$ 19,222	\$ 9,611
2004 KME Pumper Fire Truck-Loan Payable	251,960	-	84,878	167,082	82,256
Compensated Absences Payable	<u>69,552</u>	<u>-</u>	<u>23,275</u>	<u>46,277</u>	<u>-</u>
	<u>\$351,362</u>	<u>\$ -</u>	<u>\$118,781</u>	<u>\$232,581</u>	<u>\$91,867</u>

South County Water System Bonds - The City has joined with three other municipalities in contracting with the County of Monroe for the construction, financing and operation of a South County Water System. This project was financed by a federal grant and the issuance of County of Monroe bonds. These bonds are to be paid for out of the operating revenue of the water distribution system. However, should operating revenue be insufficient to retire the bonds and to pay the expenses of the system, the City is contractually liable for its pro-rata share of the deficiency.

As of June 30, 2005, the County of Monroe has one outstanding bond issue, proceeds of which have been used to construct the South County Water System. The City (based on its most current state equalized valuation) is currently liable for 6.8655% of any debt retirement requirements that the South County Water System cannot meet.

2004 KME Pumper Truck Loan Payable - On April 16, 2004, the City entered into a purchase agreement with National City Bank for the purchase of a 2004 KME pumper fire truck. The total purchase price was \$333,815. The loan terms included a principal payment of \$82,500 at closing followed by three (3) equal principal and interest payments of \$87,251 due annually commencing August 16, 2004. The interest rate is 3.08%. The City is financing this loan through a voted tax millage.

Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

The annual requirements to pay principal and interest on the long-term debt outstanding at June 30, 2005 are as follows:

<u>Fiscal Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 91,867	\$5,926	\$ 97,793
2007	<u>94,437</u>	<u>2,894</u>	<u>97,331</u>
	<u>\$186,304</u>	<u>\$8,820</u>	<u>\$195,124</u>

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 9

Property Taxes

The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

The taxable valuation for both real and personal property as of December 31, 2003, amounted to \$85,628,858 which was based on a percentage of the fair market value of the assessed property. The 2004 tax roll consisted of the following:

	General Operating	Fire Millage Fund	Flood Control Facilities Fund	Totals
Mills	9.1075	1.0000	1.0000	11.1075
Levy	\$779,861	\$85,625	\$85,625	\$951,111

Included within the boundaries of the City of Luna Pier is a Consumers Power Company electric utility plant. A breakdown of the 2004 levy between the Consumers Power Company and other property is as follows:

Consumers Power Company	\$623,067
Other	<u>328,044</u>
	<u><u>\$951,111</u></u>

Note 10

Sewer Use Charge

Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, and Ordinance No. 175 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System based on unit factors. The Ordinance requires a charge of \$175 per unit as of June 30 each year. For these statements, on a fiscal year basis, the June 30, 2005 billing was recognized as revenue.

Note 11

Employee's Pension Plan

Plan Description

The City of Luna Pier is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees are eligible to participate in the system. Benefits vest after 10 years of service. Covered employees are eligible to retire at age 60 with 10 or more years of credited service or age 55 with 15 or more years of credited service or age 50 with 25 or more years of credited service. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's three-year final average compensation. The retirement allowance is reduced ½ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 11 Employee's Pension Plan (Concluded)

Plan Description (Concluded)

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.

Funding Policy

All full-time employees contribute 5% of their salary to the plan which amounted to \$19,145 for the fiscal year ending June 30, 2005. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$41,709 for the fiscal year ending June 30, 2005 (10.09% of covered payroll). The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

Annual Pension Cost

For the fiscal year ending June 30, 2005, the City's annual pension cost of \$41,709 for the plan was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions include (a) 8.0% investment rate of return, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.16%, depending on age, attributable to seniority/merit and, (d) assumptions that benefits will increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

Three-year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual Pension Cost Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$31,063	100%	\$ -
6/30/04	27,688	100%	-
6/30/05	41,709	100%	-

	<u>Valuation Ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$2,370,117	\$2,537,930	\$2,670,015
Actuarial accrued liability (entry age)	2,909,550	3,038,973	3,722,576
Unfunded AAL	(539,433)	(501,043)	(1,052,561)
Funded ratio	81%	84%	72%
Annual payroll	479,095	496,253	335,927
UAAL as a percentage of annual covered payroll	113%	101%	313%

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2005

Note 12 Contingent Liability

The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

Note 13 Lake Front Sewer Projects

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle City which specified that the City of Luna Pier will provide the capacity for treatment of the City's wastewater at the City of Luna Pier Wastewater Treatment Plant. Under the agreement, LaSalle City is responsible for the financing and construction of a portion of the expansion to the present system. As of June 30, 1991, the expansion of the system had been completed. The City of Luna Pier is responsible for the operation and maintenance of the system and LaSalle City is liable for a minimum annual usage charge of \$49,266. The City received a grant from the Environmental Protection Agency for \$1,190,300, which covered approximately 55% of the eligible costs relating to the expansion of the present system and the sewer lines in LaSalle City. Total costs of the project were approximately \$2,907,703, with the City of Luna Pier contributing \$130,000. Costs relating to the expansion of Luna Pier's system amounted to \$1,378,251.

Note 14 Health Care and Life Insurance

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's full time employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$225,287 for the year ended June 30, 2005. \$94,432 of this yearly expense was for premiums for thirteen retirees.

Note 15 Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$779,865	\$779,865	\$778,433	(\$1,432)
Payment in lieu of taxes	5,000	5,000	12,435	7,435
Penalties and interest	600	600	797	197
	785,465	785,465	791,665	6,200
Licenses and permits:				
Building permits	10,000	10,000	25,345	15,345
Plan review fee	100	100	100	0
Plumbing permits	1,000	1,000	3,974	2,974
Parking and launching permits	1,100	1,100	3,526	2,426
Electrical permits	1,500	1,500	6,240	4,740
Mechanical permits	1,000	1,000	3,450	2,450
Other	0	0	160	160
	14,700	14,700	42,795	28,095
Federal grants:				
FEMA grant - fire department	0	0	43,335	43,335
Homeland security grant	0	0	15,732	15,732
COPS grant	20,000	20,000	25,172	5,172
	20,000	20,000	84,239	64,239
State grants:				
State shared revenue	135,000	135,000	130,423	(4,577)
Liquor license fees	800	800	835	35
	135,800	135,800	131,258	(4,542)
Local grant:				
County of Monroe grant	0	0	93,308	93,308
Charges for services:				
Tax administration fee	20,000	20,000	25,016	5,016
Cablevision fee	4,000	4,000	4,520	520
Bed tax - Super 8	0	0	6,997	6,997
Fringe benefit recovery	6,525	6,525	4,529	(1,996)
	30,525	30,525	41,062	10,537
Fines and forfeits	4,000	4,000	6,595	2,595
Interest income	3,000	3,000	19,518	16,518

CITY OF LUNA PIER

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues(Continued)				
Rentals:				
Equipment rental	\$36,200	\$36,200	\$22,858	(\$13,342)
Building rental	5,000	5,000	8,180	3,180
Bath house rental	975	975	1,075	100
City hall rental	3,000	3,000	3,600	600
Truck terminal lease	900	900	10,300	9,400
AT&T tower land lease	9,000	9,000	10,200	1,200
	<u>55,075</u>	<u>55,075</u>	<u>56,213</u>	<u>1,138</u>
Other revenue:				
Donations	4,000	4,000	1,814	(2,186)
Police forfeitures	0	0	890	890
Sale of land	0	0	166,990	166,990
Sale of fixed assets	0	0	17,571	17,571
Other revenue	18,030	18,030	19,340	1,310
	<u>22,030</u>	<u>22,030</u>	<u>206,605</u>	<u>184,575</u>
Total Revenues	1,070,595	1,070,595	1,473,258	402,663
Expenditures				
Legislative:				
Council	5,000	5,000	4,400	600
General government:				
Mayor	6,250	6,250	6,086	164
City administrator	44,680	44,680	30,107	14,573
Election	13,100	13,100	1,657	11,443
Audit	6,300	6,300	8,250	(1,950)
Assessor	25,800	25,800	20,308	5,492
Attorney	12,740	12,740	23,963	(11,223)
Clerk	47,568	47,568	49,618	(2,050)
Board of review	1,250	1,250	350	900
Treasurer	37,899	37,899	46,896	(8,997)
City hall and grounds	18,255	18,255	21,499	(3,244)
Industrial park	1,500	1,500	300	1,200
Other	18,000	18,000	13,449	4,551
	<u>233,342</u>	<u>233,342</u>	<u>222,483</u>	<u>10,859</u>
Public safety:				
Police department	217,926	217,926	236,814	(18,888)
Fire department	50,328	50,328	152,113	(101,785)
Building inspection	31,452	31,452	36,825	(5,373)
Urban planning	5,400	5,400	5,400	0
	<u>305,106</u>	<u>305,106</u>	<u>431,152</u>	<u>(126,046)</u>

CITY OF LUNA PIER

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Expenditures(Concluded)				
Public works:				
Public works	\$134,122	\$134,122	\$140,751	(\$6,629)
Streetlights	26,500	26,500	25,950	550
Refuse collection	57,500	57,500	56,832	668
Water department	300	300	100	200
	<u>218,422</u>	<u>218,422</u>	<u>223,633</u>	<u>(5,211)</u>
Recreation and cultural:				
Recreation	18,103	18,103	15,716	2,387
Water tower park	11,433	11,433	9,344	2,089
Library	11,067	11,067	10,348	719
	<u>40,603</u>	<u>40,603</u>	<u>35,408</u>	<u>5,195</u>
Other:				
Insurance and bonds	64,000	64,000	66,101	(2,101)
Hospital and dental insurance	154,000	154,000	204,545	(50,545)
Life insurance	5,500	5,500	5,544	(44)
Pension	30,000	30,000	34,554	(4,554)
Social security	40,000	40,000	36,279	3,721
Unemployment and buy out	1,000	1,000	0	1,000
Workers compensation	6,000	6,000	9,969	(3,969)
Grand pump	7,500	7,500	1,121	6,379
Engineering	2,000	2,000	4,955	(2,955)
Contingencies	998	998	0	998
	<u>310,998</u>	<u>310,998</u>	<u>363,068</u>	<u>(52,070)</u>
Total Expenditures	<u>1,113,471</u>	<u>1,113,471</u>	<u>1,280,144</u>	<u>(166,673)</u>
Excess (Deficiency) of Revenues Over Expenditures	(42,876)	(42,876)	193,114	235,990
Other Financing Sources (Uses)				
Operating transfer out	<u>(87,200)</u>	<u>(87,200)</u>	<u>(67,852)</u>	<u>19,348</u>
Net Change in Fund Balances	<u>(130,076)</u>	<u>(130,076)</u>	<u>125,262</u>	<u>255,338</u>
Fund Balances - Beginning of year	<u>250,493</u>	<u>250,493</u>	<u>346,211</u>	<u>95,718</u>
Fund Balances - End of year	<u><u>\$120,417</u></u>	<u><u>\$120,417</u></u>	<u><u>\$471,473</u></u>	<u><u>\$351,056</u></u>

CITY OF LUNA PIER

*Major Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants:				
Gas and weight tax	\$59,939	\$59,939	\$63,074	\$3,135
Interest income	1,500	1,500	5,595	4,095
 Total Revenues	 61,439	 61,439	 68,669	 7,230
Expenditures				
Public works:				
Construction	80,000	80,000	0	80,000
Routine maintenance	87,563	87,563	19,236	68,327
Traffic services	4,975	4,975	861	4,114
Winter maintenance	7,750	7,750	5,803	1,947
Administrative and engineering	2,475	2,475	2,575	(100)
Contingencies	187,959	187,959	0	187,959
 Total Expenditures	 370,722	 370,722	 28,475	 342,247
 Excess (Deficiency) of Revenues Over Expenditures	 (309,283)	 (309,283)	 40,194	 349,477
Other Financing Sources (Uses)				
Operating transfer out	(14,895)	(14,895)	(14,895)	0
 Net Change in Fund Balances	 (324,178)	 (324,178)	 25,299	 349,477
 Fund Balances - Beginning of year	 344,440	 344,440	 358,173	 13,733
 Fund Balances - End of year	 \$20,262	 \$20,262	 \$383,472	 \$363,210

CITY OF LUNA PIER

Local Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants:				
Gas and weight tax	\$36,410	\$36,410	\$38,563	\$2,153
Interest income	700	700	2,667	1,967
Other revenue	0	0	204	204
Total Revenues	37,110	37,110	41,434	4,324
Expenditures				
Public works:				
Construction	100,500	100,500	0	100,500
Routine maintenance	85,375	85,375	44,740	40,635
Traffic services	3,725	3,725	2,640	1,085
Winter maintenance	17,375	17,375	8,822	8,553
Administrative and engineering	3,200	3,200	3,300	(100)
Contingencies	30,395	30,395	0	30,395
Total Expenditures	240,570	240,570	59,502	181,068
Excess (Deficiency) of Revenues Over Expenditures	(203,460)	(203,460)	(18,068)	185,392
Other Financing Sources (Uses)				
Operating transfer in	72,985	72,985	14,895	(58,090)
Net Change in Fund Balances	(130,475)	(130,475)	(3,173)	127,302
Fund Balances - Beginning of year	148,445	148,445	151,457	3,012
Fund Balances - End of year	\$17,970	\$17,970	\$148,284	\$130,314

CITY OF LUNA PIER

Special Road Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$200	\$200	\$235	\$35
Other revenue	25	25	0	(25)
Total Revenues	225	225	235	10
Expenditures				
Public works:				
Administrative and engineering	500	500	500	0
Contingencies	704	704	0	704
Total Expenditures	1,204	1,204	500	704
Excess (Deficiency) of Revenues Over Expenditures	(979)	(979)	(265)	714
Other Financing Sources (Uses)				
Operating transfer out	(58,000)	(58,000)	0	58,000
Net Change in Fund Balances	(58,979)	(58,979)	(265)	58,714
Fund Balances - Beginning of year	59,029	59,029	59,090	61
Fund Balances - End of year	\$50	\$50	\$58,825	\$58,775

CITY OF LUNA PIER

*Community Development Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income:				
Investments	\$2,000	\$2,000	\$3,332	\$1,332
Loans	1,100	1,100	875	(225)
Total Revenues	3,100	3,100	4,207	1,107
Expenditures				
General government:				
Administration	16,190	16,190	9,039	7,151
Capital outlay	17,000	17,000	16,240	760
Total Expenditures	33,190	33,190	25,279	7,911
Net Change in Fund Balances	(30,090)	(30,090)	(21,072)	9,018
Fund Balances - Beginning of year	343,166	343,166	330,937	(12,229)
Fund Balances - End of year	<u>\$313,076</u>	<u>\$313,076</u>	<u>\$309,865</u>	<u>(\$3,211)</u>

CITY OF LUNA PIER

*Debt Retirement Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Charges for services:				
Water usage charge	\$11,003	\$11,003	\$11,036	\$33
Interest income	15	15	51	36
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	11,018	11,018	11,087	69
Expenditures				
General government:				
Audit fees	700	700	700	0
Contingency	3,541	3,541	0	3,541
	<hr/>	<hr/>	<hr/>	<hr/>
4,241	4,241	4,241	700	3,541
Debt service:				
Principal	9,612	9,612	9,612	0
Interest	1,391	1,391	1,391	0
Fees	200	200	33	167
	<hr/>	<hr/>	<hr/>	<hr/>
11,203	11,203	11,203	11,036	167
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	15,444	15,444	11,736	3,708
Net Change in Fund Balances	(4,426)	(4,426)	(649)	3,777
Fund Balances - Beginning of year	<hr/>	<hr/>	<hr/>	<hr/>
	4,426	4,426	5,073	647
Fund Balances - End of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$0	\$0	\$4,424	\$4,424

CITY OF LUNA PIER

*Flood Control Facilities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property taxes				
Property taxes	\$85,629	\$85,629	\$85,469	(\$160)
Payment in lieu of taxes	500	500	1,365	865
Penalties and interest	100	100	88	(12)
	<u>86,229</u>	<u>86,229</u>	<u>86,922</u>	<u>693</u>
Interest income	<u>2,000</u>	<u>2,000</u>	<u>6,314</u>	<u>4,314</u>
 Total Revenues	 88,229	 88,229	 93,236	 5,007
Expenditures				
Public works:				
Dike maintenance	200,000	200,000	9,000	191,000
Emergency maintenance	240,000	240,000	0	240,000
Engineering fees	5,000	5,000	16,252	(11,252)
Attorney fees	500	500	0	500
Miscellaneous	500	500	0	500
Contingency	<u>6,729</u>	<u>6,729</u>	<u>0</u>	<u>6,729</u>
 Total Expenditures	 <u>452,729</u>	 <u>452,729</u>	 <u>25,252</u>	 <u>427,477</u>
 Net Change in Fund Balances	 (364,500)	 (364,500)	 67,984	 432,484
 Fund Balances - Beginning of year	 <u>364,500</u>	 <u>364,500</u>	 <u>357,892</u>	 <u>(6,608)</u>
 Fund Balances - End of year	 <u><u>\$0</u></u>	 <u><u>\$0</u></u>	 <u><u>\$425,876</u></u>	 <u><u>\$425,876</u></u>

CITY OF LUNA PIER

*Fire Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2005*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes:				
Property taxes	\$85,629	\$85,629	\$85,469	(\$160)
Payment in lieu of taxes	600	600	1,365	765
Penalties and interest	50	50	88	38
	86,279	86,279	86,922	643
Interest income	50	50	73	23
 Total Revenues	 86,329	 86,329	 86,995	 666
Expenditures				
Public safety:				
Fire department:				
Miscellaneous	25	25	0	25
	25	25	0	25
Debt service:				
Principal	83,772	83,772	84,878	(1,106)
Interest	3,480	3,480	2,374	1,106
	87,252	87,252	87,252	0
 Total Expenditures	 87,277	 87,277	 87,252	 25
 Excess (Deficiency) of Revenues Over Expenditures	 (948)	 (948)	 (257)	 691
Other Financing Sources(Uses)				
Operating transfer in	2,000	2,000	0	(2,000)
 Net Changes in Fund Balances	 1,052	 1,052	 (257)	 (1,309)
 Fund Balances - Beginning of year	 2,369	 2,369	 2,471	 102
 Fund Balances - End of year	 \$3,421	 \$3,421	 \$2,214	 (\$1,207)

CITY OF LUNA PIER

*Tax Collection Agency Fund
Statement of Changes in Assets and Liabilities
June 30, 2005*

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash	<u>\$1,000</u>	<u>\$3,974,265</u>	<u>\$3,973,113</u>	<u>\$2,152</u>
Liabilities				
Due to other taxing units	\$1,000	\$1,111,593	\$1,111,593	\$1,000
Due to other governmental units	<u>0</u>	<u>2,862,672</u>	<u>2,861,520</u>	<u>1,152</u>
Total Liabilities	<u>\$1,000</u>	<u>\$3,974,265</u>	<u>\$3,973,113</u>	<u>\$2,152</u>

CITY OF LUNA PIER

Waste Water Treatment Plant Fund Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets Years Ended June 30, 2005 and 2004

	2005	2004
Operating Revenues		
Charges for services:		
Sewer use charge - Luna Pier	\$133,298	\$129,298
Sewer use charge - LaSalle Township	51,279	49,404
User fees - Mason School	2,400	2,800
	186,977	181,502
Permits	10,370	5,220
Penalties	327	751
	197,674	187,473
Operating Expenses		
Sewer processing and maintenance:		
Salaries	73,472	104,118
Payroll taxes	5,621	7,965
Workers compensation	2,205	2,121
Pension	7,156	5,999
Hospitalization insurance	20,742	35,761
Life Insurance	894	1,027
Insurance	13,479	12,364
Supplies and chemicals	33,983	20,979
Contracted services	51,166	25,813
Utilities and telephone	23,753	22,065
Maintenance	8,313	15,437
Schooling	590	414
Miscellaneous	3,167	742
Depreciation	60,961	58,488
	305,502	313,293
Administration:		
Salaries	3,117	3,350
Fringe benefits	779	837
Audit fees	1,700	1,700
	5,596	5,887
	311,098	319,180
Net Operating Income (Loss)	(113,424)	(131,707)
Non-Operating Revenues (Expenses)		
Interest income	1,490	591
	1,490	591
Net Income (Loss) Before Transfers	(111,934)	(131,116)
Transfers in	67,852	97,894
Change in Net Assets	(44,082)	(33,222)
Net Assets - Beginning of year	2,159,238	2,192,460
Net Assets - End of year	\$2,115,156	\$2,159,238

CITY OF LUNA PIER*Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005*

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>
<u>Federal Emergency Management Agency</u>		
Emergency Preparedness and Response Directorate Grant Assistance to Firefighters Grant - EMW-2004-FG-20747	83.554	\$43,335
Passed through the Michigan State Police, Emergency Management Division:		
Homeland Security Part II Infrastructure Protection - 2003	97.004	15,732
Hazard Mitigation Grant Program - FEMA-1226-DR-MI	83.548	420,000
		<u>435,732</u>
Total Federal Emergency Management Agency		479,067
<u>U.S. Department of Justice</u>		
Public Safety Partnership and Community Policing Grants (COPS) - 2001UMWX0110	16.710	115,534
Total Federal Financial Assistance		<u>\$594,601</u>

Accrued (Deferred) Revenue July 1, 2004	Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (Deferred) Revenue June 30, 2005
\$0	\$0	\$43,335	\$43,335	\$0
0	0	15,732	15,732	0
(15,426)	158,813	0	0	(15,426)
(15,426)	158,813	15,732	15,732	(15,426)
(15,426)	158,813	59,067	59,067	(15,426)
8,613	90,362	25,172	17,665	16,120
(\$6,813)	\$249,175	\$84,239	\$76,732	\$694

CITY OF LUNA PIER

Notes to Schedule of Expenditures of Federal Awards *Year Ended June 30, 2005*

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Luna Pier and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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Mayor and City Council
City of Luna Pier
Monroe County, Michigan

Report of Comments and Recommendations

Our audit of the financial statements of the City of Luna Pier for the fiscal year ended June 30, 2005, was made in accordance with auditing standards generally accepted in the United States of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry and confirmation, that we determine that existing internal control, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the City. During the course of our audit, we noted certain practices and procedures which we believe could be changed to improve existing internal controls, accounting procedures and records, and other matters.

Our comments on these items are set forth herein for your review and have been discussed with appropriate personnel. These comments are based primarily upon procedures employed during our audit and therefore do not encompass all matters that might result from special studies directed toward such matters.

General Journal Entries

Throughout the year, the City posts adjusting journal entries to the general ledger. We suggest that a notebook be kept of all journal entries posted to the general ledger and that any appropriate documentation to support the entries be kept in the notebook. This procedure would not only help explain why the entries were made but can serve as a reminder of journal entries that need to be made on a regular basis.

Due To/Due From Other Funds

Many postings to the general ledger affect more than one fund. "Due To Other Funds" and "Due From Other Funds" are created as a result. One of the checks to see if both funds have been properly posted is to check regularly that the Due To/Due From balance with each other. These should be reviewed monthly to see that they match and any differences are resolved as soon as possible.

Mayor and City Council
City of Luna Pier

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,

A handwritten signature in cursive script, reading "Cooley Helzel Wahlquist & Caulton". The signature is written in dark ink and is positioned above the date.

October 20, 2005